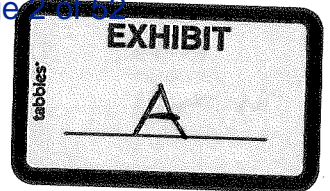


# **EXHIBIT A**



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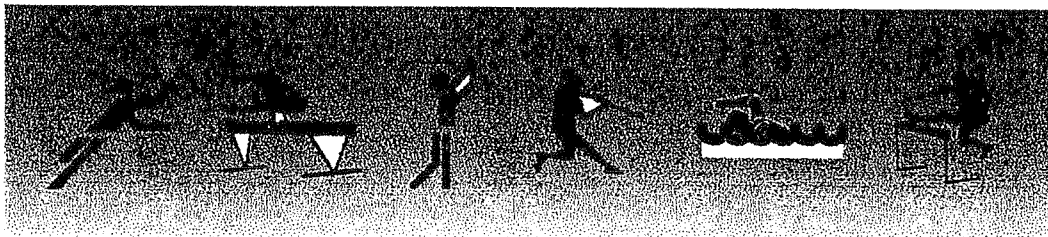
## BIG TEN DEVELOPMENT (B.T.D.)

H

Profitable development of  
non-performing Big Ten Conference assets  
by an independent company.

## BUSINESS PLAN

May 1998



### BIG TEN DEVELOPMENT

c/o Robert Welsh  
The Welsh Center  
1250 S. Grove Ave.  
Suite 200  
Barrington, IL 60010

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TABLE OF CONTENTS

Executive Summary	Page 3
Mission and Objectives	Page 7
The Market	Page 10
Market Potential	Page 11
Five BTD Operating Divisions	Pages 12-24
Big Ten Championship (BTC)	Pages 12-18
Big Ten Networks (BTN)	Pages 18-21
Big Ten Internet (BTI)	Pages 21-22
Big Ten Marketing (BTM)	Pages 22-23
Big Ten Restaurants (BTR)	Page 24
Financial Projections	Pages 25-28
Corporate Organization	Pages 29-31

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**BIG TEN DEVELOPMENT**

**EXECUTIVE SUMMARY**

**BIG TEN DEVELOPMENT** plans to become the first national prototype to synergistically combine the underutilized assets of a major college athletic conference (The Big Ten Conference) in a new model for profitable development. The key understanding of this plan is:

*The whole is greater than the sum of the parts ...*

The Big Ten assets to be developed or redeveloped are:

**1) Big Ten Championships (BTC), -**

Staging Big Ten Championship tournaments for 18 -19 "Olympic Sports" (BTC will not have rights to any live football or live mens or womans basketball.)

**2) Big Ten Network (BTN), -**

Development of a Big Ten satellite/cable television station to broadcast the 18 - 19 Big Ten "Olympic Sports" and other Big Ten based programming.  
(See Big Ten Networks)

**3) Big Ten Internet (BTI), -**

Development of a Big Ten Conference internet broadcast capability to parallel, enlarge, merchandise goods and enhance the Big Ten satellite/cable television network above.

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**4) Big Ten Merchandising (BTM), -**

Development of merchandising options not in conflict with either member schools or the Big Ten Conference merchandising, sponsorships or licenses. Merchandising options will include stores, catalogs, television, internet and restaurants.

**5) Big Ten Restaurant Development (BTR), -**

Partner with successful restaurant development group to bring great food, Big Ten people, history and memorabilia to life in key midwestern city locations.

According to media industry experts, the markets for regional, local and more subject specific television is the future trend. Interactive television coupled with niche market interesting programming and "moving TV beyond advertising to distribution" is where real money can be made. (See Barry Diller article - Appendix 1.) Beyond profitably developing the Big Ten network, each of the other four operating divisions has the same "specialty niche" market as the media division. To repeat, the key is intertwining the opportunities of each operating division forming a *"whole is greater than the sum of the parts"* opportunity.

These five operating divisions will dramatically enhance the Big Ten conference identity in a positive way. Additionally new profitable opportunities to bring olympic sports "to life" for the first time through in-depth coverage of these events both live and through broadcasting will grow.

The real product of this entire plan will be the ever improving, growing opportunity to merchandise goods over the **BTN** and **BTI**. Media kingpins are focusing sharply on this issue, as will **BTD**.

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The company will be formed as a Sub-Chapter S Corporation. There is a need to recruit and hire several key people to bring this plan into the realm of reality. The key executive positions that need to be filled are:

- \* President and CEO                      Robert W. Welsh - the vision of this business, background, contacts, drive, multi-faceted business experience, and enthusiasm, - are all focused to launch this plan.
- \* Chief Financial Officer
- \* Executive VP of Administration
- \* Executive VP of Research
- \* VP Big Ten Merchandising (**BTM**)
- \* VP Big Ten Restaurants (**BTR**)
- \* VP Big Ten Championships (**BTC**)
- \* VP Big Ten Networks (**BTN**)
- \* VP Big Ten Internet Services (**BTI**)

The first division to come into operation will be **BTC**. All 18-19 championship events must be re-engineered, listening closely to the needs and concerns of each sports coach at all Big Ten schools, the athletes themselves, and the key Big Ten conference administrators. Once a **BTC** divisional VP is hired and proceeding with the championships development plan, other divisions, in this order: **BTN**; **BTI**; **BTM**; and **BTR** will all begin hiring key people and preparing to operate.

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A presentation to the Big Ten athletic directors will take place May 18 with the prospect of approval at that time for the entire plan pending adequate financial backing. I will ask until January 1, 1999 to raise the necessary financing. All Big Ten olympic sport championship events are already scheduled through the 1999 - 2000 seasons. **BTC** will begin staging events for the 2000 - 2001 seasons. At that time, all 5 operating divisions will begin operations.

Our capital needs to develop the five divisions of **BTD** are \$25,000,000. over the next two years. We will raise and use the funds as follows:

- 1) \$5,000,000 by January 1, 1999 to establish a relationship with a major local production facility, hire all key executives, obtain formal list of rights from the Big Ten conference, begin hiring necessary staff.
- 2) \$5,000,000 by May 1, 1999 to purchase satellite station, form committees for each championship event, research locations, travel plans, hire on-air talent, negotiate merchandising product options, begin production of various programming titles to be filmed in advance, hire all staff through divisional VP's, prepare divisional budgets and profit goals.
- 3) \$10,000,000 by January 1, 2000 to provide capitalization to get all necessary people, plans, advertising, equipment, facility rentals, etc. to begin full operations July 1, 2000.
- 4) \$5,000,000 by January 1, 2001 to expand advertising and merchandising options.



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### 1. MISSION AND OBJECTIVES

Our mission is:

- \* To become a model of taking previously unthought of or money losing assets of a major american college athletic conference and, by re-thinking and re-engineering these assets, create a very profitable new company.
- \* Promote and help the Big Ten conference and its millions of fans and alumni become much more interested and aware of specific examples of sports they didn't previously understand or appreciate; BTD will use every effort to emulate the principals, attitudes and values that have made Big Ten schools, sports programs, and specific people within the Big Ten conference great.
- \* Build a successful company that creates an innovative open culture that helps find and keep exceptional people through development of compassion for their product, and the will to work together to achieve overall company goals.

We will implement our mission by following a clearly defined strategy. We will focus our resources on developing live championship events, and broadcasting these events in a way that will attract audiences and dignify athletes in their championship events. Our short and medium range objectives are as follows:

- \* Obtain sufficient funding to make this company weather unforeseen startup expenses and to create maximum confidence among our partners, the 11 schools of the Big Ten conference.
  - \* \$5,000,000 by January 1, 1999
  - \* \$5,000,000 by May 1, 1999
  - \* \$10,000,000 by January 1, 2000
  - \* \$5,000,000 by January 1, 2001

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- \* Form a new company (**BTD**) that will acquire the "rights" from the Big Ten conference to specific non-performing or underutilized assets.
- \* **BTD** will form (5) new business divisions, each an individual profit center to re-engineer, re-package and market these acquired Big Ten "rights;" - each managed for continuous improved profitability.
- \* The Big Ten conference and member schools will be relieved of the cost of staging and producing all "olympic sport" championships. Because of this and the opportunity for increased visibility and quality of events, the Big Ten conference should be agreeable to give the rights requested at no charge with the opportunity of significant future back-end revenue.
- \* The Big Ten conference and member schools will receive \_\_\_\_\_ % (to be determined) of the annual net profits of **BTD**. This back-end revenue could be distributed to each school in much the same way bowl game revenue is distributed.
- \* **BTD** is committed to "partner" with the Big Ten conference to share an attitude and value system to further a positive image of the Big Ten conference. Dignity, emphasis on fair play, recognition of hard work, accentuating the positive and facing up to any negative news will all be the key "cultural" cornerstones of **BTD**.
- \* Enhance our core team of managers by hiring quality people to continually produce better events, programming and merchandising.
- \* Partner with major Chicago production studio to have a home to work from.

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- \* Successfully stage, produce and broadcast all 18-19 Big Ten championship events for the 2000 - 2001 academic year.
- \* Beginning July 1, 2000, go on the air with a 24-hour satellite station. Initial programming will be 3 - 8/Hour cycles per day.
- \* Get DirecTV to virtually "give" at no charge the satellite space slot for a new world wide satellite station.
- \* Operate at break even in the 1st fiscal year July 1, 2000 - June 30, 2001.
- \* Revenues will be developed by; net income from all championship events; advertising revenue from broadcasting, merchandising goods through several mediums, subscription revenue **BTN** satellite subscribers, travel package commissions.
- \* Show 20% return on total investment for fiscal year July 1, 2001 - June 30, 2002. Specifically net income of \$5,000,000 on invested funds of \$25,000,000.
- \* Be a \$25,000,000 revenue company by end fiscal year June 30, 2006.

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## 2. MARKET OPPORTUNITY

Viewer trends  
both at live events  
and television are  
shifting.

The patterns by which people are attending events, watching television and purchasing goods today are undergoing dramatic change. This plan speaks directly to this changing trend. BTD will also capitalize in the near future on interactive direct purchasing of goods and services in close time proximity to watching a specific sports program.

## THE MARKET

This narrow and  
deep, educating  
"narrowcasting"  
is a market trend.

There has been a trend in the past several years for regional satellite sports stations to spring up. These stations would carry pro, college, and highschool scores, games and highlights in their regional area. Within the past two years, FOX (Rupert Murdoch) has been buying these regional sports channels re-naming them FOX regional sports stations. While they still provide some regional sports coverage, a common national FOX sports news desk plays on all of these stations at once. The satellite "surfing" viewer sees the same programming on every channel. The proposed Big Ten network will stop the surfing sports viewer as it will be truly in depth "narrow and deep" narrowcasting. The chance for viewers to interact via call in for merchandise or internet ordering will cause major new future marketing opportunities.

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### MARKET VOLUME

There are  
millions of  
Big Ten Alumni  
world-wide.

Significant forecasted revenue will be derived from satellite TV subscriptions. There are over 3 million living alumni of Big Ten schools world-wide. All these alums can be direct marketed with the cooperation of each Big Ten schools' alumni association. Additionally, there are untold numbers of Big Ten sports fans who did not attend a Big Ten school, particularly in midwestern states home to a specific Big Ten campus. These subscribers can be directly marketed by matching up current DirecTV satellite subscribers in a target state.

There are many options for growing market demand for live Big Ten olympic sport championship attendance. This complete analysis will appear later in the plan specifically discussing **BTC**.

Interest in the restaurants, merchandise, internet, attending championships and viewing the **BTN** can all cross market each other. This will increase the awareness of all operating divisions much quicker through many different levels and areas of marketing. Efficiencies of advertising and promotion budgets will be increased five-fold.

### MARKET POTENTIAL

When the five operating divisions are "open" and generating revenue, there are an infinite number of tie-ins or enhancements that could be developed. Many of these future tie-ins will be Big Ten specialized. These new tie-ins could include fan conventions, trading cards, sweepstakes or magazines ... all concepts that have already been proven successful on a national level in professional sports.

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FIVE BTD OPERATING DIVISIONS

**1) Big Ten Championships (BTC)**

Goals:

- \* To profitably popularize all Big Ten championship events through marketing, site evaluation, production staging, sponsorships, innovative pre-event activities and media awareness.
- \* To increase the quality of the experience for all Big Ten athletes participating in Big Ten championships.
- \* Increase communication, understanding, and recruiting between Big Ten universities, - the Big Ten conference, - and the general population.

How It Will Work:

- \* The new model for Big Ten championship events follows with specific timetables, budgets and philosophies.
- \* The Vice President of **BTC** will oversee a "field staff" of 3 - 4 individuals. Each field staff member will have direct responsibility for 4 - 6 championship events.
- \* Each field staff member will oversee his/her 4 - 6 championship events using the same following approach. Each field staff member will have his/her specific championship events spread out with the goal of each field staffer staging 1 - 2 championship events per season. (Fall, Winter, Spring.)

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The Approach:

- \* Each Big Ten championship event will start the reorganizing effort by forming five information gathering groups. These five information gathering groups will be developed and coordinated by the Vice President of **BTC** and the field staffer for that specific sport championship. The five information gathering groups will be:
  - \* Big Ten coaches
  - \* Site Procurement
  - \* Promotions and Publicity
  - \* Travel
  - \* Finance
- \* Each information gathering group will be made up of a field staffer, and 4 - 5 other people with expertise on the specific category. Potential group members might include Big Ten personnel, coaches, alumni who played a specific sport, retired coaches, etc. Recommendations for group members will be solicited from coaches, Big Ten officials, VP's of **BTD**, etc.

**Big Ten Coaches Information Gathering Group:**

The Big Ten coaches for each individual sport championship will be interviewed both individually and as a group to state specific strengths and weaknesses of past Big Ten championship events. They will be asked to also provide a specific list of changes to make the championship event better for them as coaches and for their athletes. Athletes will also be questioned as a group (each Big Ten team) also giving their strengths and weaknesses of past events and specific ideas for improvement.



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### **Site Procurement Information Gathering Group:**

For each championship event to gain increasing popularity each year, it is important to find a "permanent" home site for each championship event. Ideally, each permanent site will be a neutral city with strong interest in holding the championship as part of its annual group of events. In certain sports, Big Ten campuses and facilities could continue to be used. Key considerations for each championship site will be: quality of specific event facilities, availability of hotel rooms and their proximity to the facility, proximity of commercial airport to hotels and facilities, availability of restaurants and regional amenities, level of interest of city boards and politicians, availability and commitment of local sponsorships for championship related activities (cost of facilities, decorations, competing athlete or coaches gift packages, reduced hotel and courtesy van transportation rates for athletes and coaches, a large local travel company to work with the travel group for fan travel packages, local sponsors to cover costs of media production of the event, - our **BTN** division.)

Great creativity could be developed in the site procurement groups. Midwestern and southern cities of 100,000 to 1,000,000 will be targeted. For weather reasons, southern cities with easy access to hotels, airports, ground transportation would be considered for "Spring" or "Fall" championships such as golf, track & field and baseball.

### **Promotions and Publicity Information Gathering Group:**

The promotions and publicity information gathering group for each sport is critical to the success of the re-organizing effort of the Big Ten championship events. Awareness on many levels needs to take place to achieve the live fan attendance and satellite/cable TV viewer goals.



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to increase revenues derived from these events developing **BTC** into a profitable division of **BTD**. There will be six areas for the P & P research gathering group to focus on:

- i. Conceive and develop new championship event practices designed to increase the excitement, enjoyment and prestige of the championship for all attendees. Changes may include much more bunting, signage and decorations at championship facility, local and national celebrity personalities in attendance or handing out awards, areas for kids close to warm-up areas for athletes, pre-event functions such as clinics for kids, seminars by athletes and coaches to local schools, alumni or current athlete competitions vs local or alumni teams or groups.
- ii. Develop new creative media awareness strategies so media local to the championship event itself and media local to each competing Big Ten university and surrounding area provide far greater awareness of the championship well before the actual event. Preparing highlight films and script for news stations is one example. Finding a printer (and sponsor) to print "suitable for framing" prints with artwork, dates and times for the event, to be distributed to media well in advance of the event is another example.

Putting together a master list of specific members of the media with phone numbers, addresses and coverage area will also be critical. This list will be updated every six months and have carryover value for all championships.

Finally, ways to improve the environment for media attending the event will be a major priority.

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- iii. Develop promotional spots for both television, radio and newsprint to be broadcast in each Big Ten school area, over **BTN**, etc. to make people aware of the event well in advance, and how to get travel package information.
- iv. Spokespeople, well known sports celebrity type people, for each sport, will tour each Big Ten university area, 30 - 50 days prior to the championship event to be interviewed on TV and radio about the sport and the upcoming event.
- v. Through **BTN**, broadcast extensive coverage of each Big Ten championship event with far more interest generating background stories, pre-recorded stories on individual athletes, prerecorded matches or games leading to the quarter, semi or finals will provide viewers insight and interest in the programming. The proper or "right" way to ideally broadcast each sport will be reviewed with coaches, athletes and Big Ten officials.
- vi. Event program development - people attending each Big Ten championship event will want to buy a program book with game or match schedules, rundowns of each team, and other information. This program can be used to enhance sponsor recognition packages. The program will be designed to act as a profit center unto itself.

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**Travel - Information Gathering Groups:**

The "travel group" will research, develop and sort out sophisticated travel packages for people to easily and inexpensively travel to each championship event city. Packages, extensively marketed through "promotions and publicity" would be all inclusive with event tickets, ground transportation, air travel, and meals, all at a price that will make alumni and fans seriously consider attending an event never before attended. **BTC** will receive a specified cash commission for every travel package sold.

**Finance - Information Gathering Group:**

The "finance group" will develop computerized financial statements (working with the CFO of **BTD** and the field staffer.) This group will be the nerve center tying together the information of the four other information gathering groups. From all information gathered, complete budgeted income and expense statements will be generated, - to produce each Big Ten championship event profitably. Key functions of the "Finance Group" will be:

- \* Understanding past complete financial models of each specific Big Ten championship event.
- \* Identify specific individual "cost" items of staging and producing each specific Big Ten championship event. From this report, individual sponsors or "angels" can be found from interested alums, YPO contacts, local businesses to the event, and national sponsors. The goal is to have 100% of the expense of staging an event paid for by sponsors. Significant, creative "sponsor recognition packages" will be developed to assure this goal is achieved.

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- \* Forecast gate receipts, advertising revenues, sponsorship revenues, travel package revenues against all forecasted non-sponsored event expenses to determine a budgeted net revenue for each championship event.

## **2) Big Ten Networks (BTN)**

### Goals:

- \* The goal of the Big Ten Networks, a division of **BTD**, is to profitably develop a satellite/cable television station, - the subject of which will be in depth coverage of sports and culture of the Big Ten conference.
- \* Independent regional programming has been minimized by the FOX network purchasing and making generic programming of previously all regional sports stations. The Big Ten Network's goal will be to capture satellite and cable viewership making **BTN** the most popular independent regional sports station in America.
- \* Because of new technology combining programming with merchandising, **BTN** will generate significant revenue by direct over-the-air marketing of items related to the Big Ten conference and individual member universities.

### How It Will Work:

- \* The Vice President of **BTN** will be an individual with experience in operating a satellite or cable television station. He/she will execute the various programming elements of **BTN** in a professional, first class manner. A fun personality will characterize the "tone" of **BTN**. Some combination of Masterpiece Theater, ESPN, and Wild Chicago will define the station personality.

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- \* **BTN** will contact DirecTV and, for little or no cost, get a satellite "location" channel. Supply of programming stations far exceeds programming available to televise.
- \* To begin with, this 24 hour satellite station will have a daily 8-hour programming run time, relayed three times per day.
- \* **BTN** will incorporate some programming elements proven successful on other satellite stations but with all subject matter relating to the Big Ten conference and individual member universities: Programming elements will include, but not be limited to:
  - \* **A & E:** Biographies of notable, famous, infamous, accomplished people who attended, or were employed by a Big Ten university.
  - \* **History:** In depth episodes on specific areas of history within the Big Ten conference. How universities were started, when they were started, why they were started, what their mission was and is, - are all examples of the direction this programming element will take.
  - \* **Food:** Specific alumni, faculty, student food recipes and suggestions accompanied with travelogue and history information of presenter ...  
Example: Sue Paterno's post-game supper recipes and football tailgating with the Indiana basketball team.
  - \* **Classic Sports:** Time slots daily for replay of highlight films of football and basketball, replay of famous Big Ten football and basketball games, etc.

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"Move TV  
beyond advertising  
to distribution."

**\* QVC:**

Live auction of Big Ten new and used "stuff."  
Everything from golf bags from Big Ten shops to  
outdated furniture from the chemistry department  
at Purdue.

The QVC concept for this network could also be used  
by member schools to ask alums to donate items for  
auction, - the proceeds of which would go to the  
member school.

- \* Live and delay telecast of Big Ten sports championships (non-football and non-basketball.) See Appendix B and Big Ten Championships Section.
- \* Coaches Shows, - football, basketball and possibly other coaches shows replayed at certain times for each university ... clear scheduling so alums know when their schools coach's show is on.
- \* "Let's Talk Sports" show debating sports issues in the Big Ten. This programming may be for times when viewer interest is highest. (September - November and March.)
- \* Recruiting Shows, - Experts' regular rundown on which Big Ten football and basketball teams are recruiting which kids, player biographies, rundowns and ratings on or around signing days, summarize and rate recruiting classes for each Big Ten team. Recruiting is growing in popularity. **BTN** will be "the authority" on all Big Ten recruiting.
- \* Weekend news update shows, - giving weeklong updates on all sports in the Big Ten with scores, standings in the conference for each sport, and highlights of sports of highest interest.

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- \* News conferences, - every Tuesday following a football game, Joe Paterno holds a press conference to discuss last weeks' game and the upcoming opponent. This press conference is now "thrown up" on the satellite for any station to pick up. **BTN** could carry exclusively. Other schools must also have press conferences as well. Air in full or highlights.

These programming elements will be tested to find maximum viewership. On air talent will be first class. Partnering with a local production studio, this will occur well in advance of the new station beginning so much programming will be "in the tank" ready to run.

Advertising rates will be analyzed carefully to maximize returns initially, but this will take time. See financial projections.

The expensive items here are producing Big Ten championships. Total renting of all technical equipment for one day of sports events is approximately \$50,000/day. Each event will have approximately 3 days of production costs. There are 19 championship events to produce.  $\$50,000 \times 3 \times 19 = \$2,850,000$  per year. Almost \$3,000,000 in production cost of equipment only for championship events.

The good news could be subscription rates income for **BTN**. There are 3 million living Big Ten alums world-wide. Of all college athletic conferences, the Big Ten has, arguably, the most loyal alums and fans. The future income and equity of **BTN**, - with new merchandising options, could be very high.

### **3) Big Ten Internet (BTI)**

#### Goals:

- \* The goal of **BTI** is to creatively develop revenue producing activities for **BTD** using the synergies of the other four operating divisions, and many new internet revenue producing options.



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- \* The opportunity to broadcast materials in greater detail over the internet that will be broadcast over the satellite/cable TV station is the starting point.

How It Will Work:

- \* This internet capability for people to interact with the Big Ten conference could have great value:
  - \* Items auctioned or sold via the internet could become a very lucrative future option. (See Appendix 3.)
  - \* Finding a way for people to buy and sell tickets, travel plans, hotel rooms, restaurant reservations, etc. can also be developed.
  - \* The Vice President of **BTI** will have extensive internet technical and marketing experience. He/she will hopefully also have great imagination and creativity to make this division of **BTD** a major profit center.

**4) Big Ten Marketing (BTM)**

Goals:

- \* Within an environment of non-conflicting marketing options, develop ways to generate revenues for **BTD**.
- \* Big Ten individual universities have individual licensing and sponsorship agreements which **BTM** must work around in an ethical, legal way while showing member universities that significant revenue can be developed through unique, creative, packaging and marketing strategies for Big Ten merchandise.



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How It Will Work:

- \* Sell "group" items, 12 Big Ten golf balls, - one for each Big Ten team, 11 football media guides, - one for each Big Ten team ... similar groups of other types of merchandise.
- \* Open stores in selected airports and malls to sell out items from championship events, campus book stores, and other campus retail areas. These stores will resemble the PGA airport stores which have had great success.
- \* Using synergies, find ways to sell different type of items over and over and through other divisions of **BTM**. See items at live events, sell items at live events, sell items on and through different programming options on **BTN**, sell items over the internet, sell items through restaurants.
- \* The Vice President of **BTM** must visit each college and department and team of each university to find out what they want to get rid of, what's marketable, what's overstocked for closeout, etc., and move quickly to use the formats of **BTM** to move items with **BTM** receiving sales commissions of \_\_\_\_\_% for each item sold. The remaining balance will then immediately be sent to the college, department, or team from each specific university.
- \* The Vice President of **BTM** must have a diversified marketing background, have exceptional creativity and a strong grasp of financial management to make **BTM** a separate profit center.

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**5) Big Ten Restaurants (BTR)**

Goal:

- \* To work with a successful restaurant partner to build restaurants of t  
tasteful Big Ten historical environments, with excellent mid-range  
priced food, - to operate and expand profitability.

How It Will Work:

- \* There are many successful restaurant operators. Several will be  
interviewed and a partner will be chosen.
- \* **BTR** will contribute Big Ten memorabilia, rented from specific  
universities, to provide historical, interesting interiors that bring all  
great memories of Big Ten sporting events to life.
- \* The Big Ten member universities have huge amounts of photographs,  
trophies, sports apparel, artist renderings, etc. Sitting in closets and  
basements. **BTR** will bring these items into view for alums, fans, and  
new generations of Big Ten athletes and students.
- \* The food and location must be approved by **BTR**.
- \* Perhaps specialties of "famous" campus town restaurants can be  
included in the menu.
- \* **BTR** will allocate up to \_\_\_\_\_ / restaurant for initial development  
with **BTR** money paid back first then future revenue 50/50 with  
restaurant partner.
- \* Merchandising specific Big Ten items will be a conspicuous part  
of the restaurant interior.

**CONFIDENTIAL****BIG TEN DEVELOPMENT****FINANCIAL PROJECTIONS****FIVE YEAR PLAN**

BTD Financial Projections are based on our best estimate of revenue and expenses for each of five (5) operating divisions.

R	\$35,000					
E	\$30,000					
V	\$25,000					
E	\$20,000					
N	\$15,000					
U	\$10,000					
E	\$5,000					
S	\$1,000					
	\$1,000					
	\$1,000					
	\$1,000					
	\$1,000					
	YEAR	2000	2001	2002	2003	2004

KEY GUIDE TO OPERATING DIVISIONS	
BTM	
BTN	
BTI	
BTR	
BTC	

NOTE: Revenue in \$1,000's

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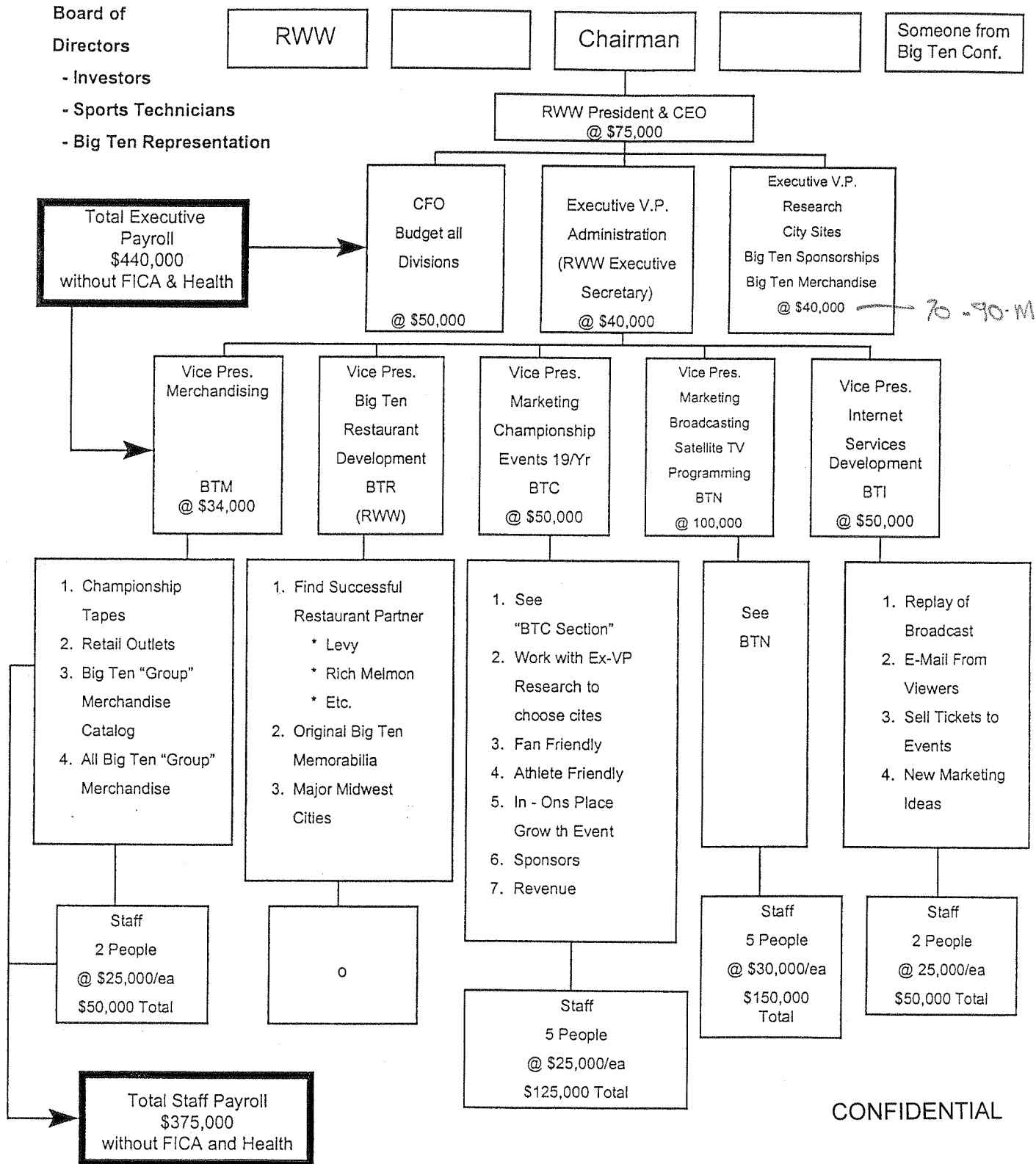
**CONFIDENTIAL****BIG TEN DEVELOPMENT****SUMMARY OF FINANCIAL FORECAST DATA**

REVENUES	2000	2001	2002	2003	2004
REVENUES	\$2,000				\$30,000
BTN	\$1,000				\$10,000
BTC	\$1,000				\$ 3,000
BTR	0				\$ 2,000
BTM	0				\$10,000
BTI	0				\$ 5,000
COST OF OPERATIONS					
BTN					
BTC					
BTR					
BTM					
BTI					
OPERATING EXPENSES					
RESEARCH					
EXECUTIVE SALARIES					
OTHER					
PRE-TAX INCOME (Loss)					
ACCUMULATED LOSSES					
ALLOWANCE FOR TAXES					
NET INCOME					

- ◆ Long Term Perspective
- ◆ Capital Requirements

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COPRORATE ORGANIZATION

Other then Robert Welsh as CEO and President no decisions on

- ◆ Board Members (5-7)
- ◆ Sr. Executive Group (3)
- ◆ Divisional Presidents (5)

These people will be in place by January 1, 1999; the same time financing will be finalized.

See appendix four (4):

CURRICULA VITAE OF ROBERT WELSH

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**APPENDIX ONE**



**THE FORBES LUNCH**

# Barry Diller's next course

Everybody's wondering what Diller's really up to. In one brisk hour with us, he makes it all quite clear.



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PHOTOGRAPHS BY MORGAN B. AZIM

**B**ARRY DILLER, 56, is very much in the public eye in these days of media deals and counter deals. He doesn't at all mind the publicity, but he wishes that the media would get it right. "People remember me at Fox, building the network and trying to take over CBS, so they say, 'So Diller is starting a network.'"

His jaw set formidably, he continues. "In their little minds, they think they have a vision of what I am doing, but that vision is not relevant to anything!"

If Diller isn't building another TV network, what is he doing? He already controls \$2.6 billion (1997 pro forma sales) worth of media and electronic commerce assets, an untidy-looking collection of television production, television stations and electronic retailing, the latter through his Home Shopping Network and 50% ownership of Ticketmaster Group. And now he's running something called the USA Networks, Inc. in partnership with Universal Studios.

Would he please explain what all this is about? We sat down to lunch with him at his regular table in the Grill room of New York's Four Seasons restaurant, the cafeteria for the media world. Here he ranks as a prince among princes. Precisely at 1 p.m. word travels through the restaurant that he's arrived. Chattering waiters quiet, and stiffen to military correctness.

He gets right down to business with us. "Frankly, I hate the word 'network,'" he says irritably. "The word is devalued. There were 3 networks, now people include Fox and say 4. But there are 100 networks! So when people say, 'Why, schmuck, are you doing a network when network viewership is declining?' It's silly!"

Now we're starting to understand why Diller is peeved when people wonder why he would want to start another network. There are different kinds of networks. The public may be watching the big networks less, but they are watching the cable networks more. In short, the audience is splintering more and more. "That's why there's an 's' at the end of USA Networks," he snaps.

In September Seagram Chief Edgar Bronfman Jr. won an agonizing battle with Viacom's Sumner Redstone for control of USA Networks, second in ratings only to Turner among the cable networks. A month later the whiskey scion turned around and gave Diller the keys. In the \$4.1 billion transaction Diller got shows like *La Femme Nikita*, *Silk Stalkings* and the Sci-Fi Channel. Also included in the deal was Universal's domestic TV production, with strong first-run shows like *Law & Order*. Seagram got 45% and the chance to buy the rest if Diller leaves.

While none of Diller's networks—mark the "s"—has the reach of an NBC or CBS or ABC, combined they may reach as many people in a week as the big over-the-air networks.

The puzzle is now complete. He has both a huge audience and the means to produce content for that audience. Diller produces made-for-TV movies—a concept he pioneered during his days at ABC—and can use Universal's film library. For advertisers he cannot only offer a huge audi-

By Dyan Machan

ence, he has, unlike the giant networks, the ability to fragment that audience any way advertisers may want to slice it.

It's not hard to see why Bronfman would give Diller control. He needs help badly. He is under pressure from shareholders—including his father and uncle and cousins—to deliver the goods on his so far ill-fated purchase of Universal. For the past two years Seagram's shares have been dead in the water, trading in the 30s.

As for Diller, he has been waiting a long time to get control of assets like these. In Diller's career three big fish got away. First he lost the battle for Paramount, then CBS. There are rumors he tried for NBC.

A waiter appears and Diller orders—guess what—fish, his standard order. But what's he really fishing for?

"In a fractionalizing world we have a different way to play our hand," he says. With USA Networks, Diller is building a unique distribution system with electronic commerce in mind. Yes, he will sell advertising, but he will sell merchandise as well. Home Shopping Network may be tacky, but it really knows how to sell the goods.

Competitors such as Disney and ABC, Time Warner and its Warner Brothers Network, Viacom and its United Paramount Network, have the same vertical integration, which allows them to both make content and distribute it, as Diller now has, but their end product, essentially, is advertising. They are like circus barkers, assembling a crowd that someone else will pitch merchandise to via advertising. Diller thinks the future is in using TV, not just to deliver sales pitches, but to actually move the merchandise via two-way communication. Diller: "We think long-term the world is going to move toward direct selling."

He goes on, referring to Home Shopping's direct selling: "These systems are scalable. HSN now takes 300,000 calls a day with spikes of thousands an hour. But the Internet puts it into warp speed. We're already at a primitive kind of convergence—telephone, television sets and computers, mixing the whole thing together. Fifty percent of our ordering is through touch-tone dialing without an operator. We're investing to make that scalability relate to the Internet."

Scalability? He simply means that it is no big deal to expand the capacity of what he already has in the way of taking orders and delivering them on HSN's system. Diller mentions Home Shopping Network's "First Auction" Web site as "one slice of a development that is multifaceted." Starting eight months ago, First Auction is off to a fast start with \$2 million a month in sales (*FORBES*, Feb. 8). Not bad. Ticketmaster already sells 3% of its theater, sports events and concert tickets over its Web site, generating \$5 million a month in revenues. Diller has an offer on the table to purchase the rest of Ticketmaster.

He's obviously thinking beyond HSN's zircons. "We and very few others are in this full-service fulfillment business, shipping millions of packages out the door every week." He wants to lease his Home Shopping back-office machin-

**"So when people say, 'Why, schmuck, are you doing a network when network viewership is declining?' It's silly!"**

ery to any store that wants to sell on the Web. He won't just be selling them advertising; he will be supplying them with structure for receiving orders and filling them. "They're not going to build our infrastructure," he says of the retailers.

Of course Diller will move some of his own merchandise, too. Home Shopping plans to air a one-hour show selling merchandise based on USA's TV-show characters Hercules and Xena.

"If there's a big plot," he says, "it is to use new ways, given these assets—to make more money off of programming than anybody else. To have a stronger distribution platform than anyone else."

Diller is known for his inventiveness. At ABC he created the miniseries and made-for-TV movies. As head of Paramount he breathed life into the moribund studio with films like *Star Trek* and the *Indiana Jones* series. In the 1980s, at Fox, he brought the world Bart Simpson and others, establishing a distinctive, alternative voice for the network. "We proved that generic is not a good brand," says Diller.

Diller sparks off ideas all over the place. Yes, moving TV beyond advertising to distribution is his big idea, but he's got other ideas for USA Networks. He owns 11 UHF stations. Until now the UHF stations have been used to air Home Shopping Network, but HSN is moving to cable systems. He's experimenting with a new format at his Miami UHF station. For years national programming has been edging out the mostly amateurish local stuff across the country. At the Miami station he plans on reversing the trend with 10 to 12 hours of local programming using live talent for quirky, local talk shows and programs with tie-ins to the Miami Heat basketball team, the *Miami Herald* and the splashy local magazine *Ocean Drive*.

Jon Miller, president and chief executive officer of USA Broadcasting, has explained Diller's views about local programming: "[Now] everything everyone watches basically comes out of Los Angeles. We don't think everything everyone watches should come out of just one place."

For one thing that "one place" is horrifically expensive. For years the cost per episode of an hourlong network drama was about \$1 million. It has been widely reported that NBC will pay \$13 million per episode for the hit show *ER* next season. With that kind of cost you need a giant audience just to break even. Cheaper shows can make money with a fraction of the audience. The networks need around 10% to 12% of their viewership to break even on expensive shows like *Seinfeld* or the *X-Files*. Diller and Miller figure they can do fine with a 3% to 5% share.

If the formula works, it gets duplicated in his ten other UHF markets. The idea is that each market becomes a talent incubator for national syndication—a flip-flop of how national shows are mainly launched today.

Diller, a college dropout who started his career in the mailroom at the William Morris agency, has made billions of dollars for other people, but last year he didn't quite qualify for The Forbes Four Hundred. Make no mistake:

He wants to move way up there. Not for the money, but for the credit he feels he deserves. His former protégés, Disney's Michael Eisner and DreamWorks SKG's David Geffen, who also started in the William Morris mailroom, both weigh in with billions.

Our money is on Diller. In the last 12 months the stock of USA Networks, previously known as HSN, Inc., has more than doubled, to \$52. Diller's options and common shares (priced on average at \$27) already make his 9% stake worth \$360 million.

So is TV going to turn into just one giant shopping mall?

Is the couch potato finished? "No way," Diller says. "There's room for lots of things." He mentions the huge success of the movie *Titanic*.

"The greatest interest level for *Titanic* is among really young people. They love the love story. It tells us that passive entertainment—a story with a good beginning and middle and, with *Titanic*, a definite end—is always going to stay.

"Don't worry about displacement," Diller assures. "Don't be a dope like the radio people when television came. It took them 15 years to figure out people listen to radio on the way to work, that kids listen and it's a vibrant medium. Stuff will get remastered to new forms and mediums."

"Things change," he says. "Theatrical motion pictures began on independent TV stations in the 1950s and 1960s. The movie was sold to the local TV stations and they ran it in their local communities. Along came

the network that altered the tier. Instead of first appearing in syndication, now it would first appear on network television.

"A few years later the first viewing was HBO, the second, network, and the third viewing—syndication. Each sequence changes the distribution chain." He's solidly convinced that the next change is going to be in the direction he has pointed to.

We take a sip of our Seagram's seltzer. Before Diller arrived I was told, "This is what Mr. Diller always drinks." The libation provides a convenient entry for our next question. Did Edgar Bronfman goof in trading his company's Du Pont stock for a movie company?

Diller defends his new partner. "Bronfman chooses to set the company in an alternative direction, and people judge him before any of this direction is known. [Shareholders] say, 'Oh my God, we owned Du Pont and now it's worth a lot of money.'"

"If somebody said, 'Let there be a change in world commodity prices,' that would change fast. It's stupid to make a judgment before five years," he concludes.

Exactly 2 p.m., our fish finished, the waiters are getting into position to clear the table and help us with our chairs. I protest because there is no check, and I expected to buy. Diller looks at me sternly and says: "You can't!" The waiters part, and he is gone.

This man is some piece of work.



**"If there's a big plot, it's to have a stronger distribution platform than anyone else."**



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SECTION B

## WHAT IN THE WORLD

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## Networks face hard sell for next season's ads

By Melanie Wells  
USA TODAY

**NEW YORK** — Madison Avenue is suffering couch potato malaise as ad agencies prepare to buy most of next season's TV ad time next month.

Last year, marketers bought \$8.7 billion in ad time during the so-called "up-front" period in May when TV networks announce their fall schedules.

But this spring could be a hard sell. Networks are expected to seek higher rates at a time when viewership is down, programming costs are soaring

and cable channels are hatching more hit shows.

"It's hard to get whipped into frenzy with the lack of programming success this year and with the erosion of network viewership," says Steve Grubbs, ad agency BBDO's director of national TV buying.

The collective household-viewing share for ABC, CBS, NBC and Fox fell from 68% in the 1992-93 season to 59% in 1996-97. Meanwhile, cable channels' share rose from 24% to 34%.

"If looks as if it will be more of a buyers' market than a sell-

ers' market," says media buyer Paul Schulman, one of the ad agency executives who met with network executives in Los Angeles recently to discuss the new season.

J. Walter Thompson media executive Jean Pool cites the soft demand for ad time during the second quarter: "The tension and anxiety that can shoot a supply-and-demand market into space isn't there this year."

Even so, media executives expect rates to increase overall, particularly for return hits, such as *Mad About You* and *Just Shoot Me*.

NBC is expected to ask at least \$650,000 for 30 seconds of ad time on hospital drama *ER*. That's a 16% increase from this season, but the network is looking to offset the \$13 million an episode it agreed to pay to keep the Thursday night hit.

NBC has also told ad buyers it hopes to command higher ad rates for *DateLine*, for which ads cost an average of \$120,000 per 30-second slot this season. ABC, CBS and Fox, meanwhile, will try to get top dollar for the NFL football telecasts they will air thanks to an \$18 billion, three-year deal.

"Overall, rates will go up a little bit," says TN Media's Steve Sternberg.

For advertisers that target men but can't afford football commercial time, a slew of new male-oriented shows are being developed, such as an ABC series called *The Secret Lives of Men* about a group of men getting divorced, and CBS' *Skip Chasers* with Arsenio Hall as a bounty hunter.

"It's difficult to reach guys on the tube, and there's a push to do that," says Western International broadcast buyer Bill Croasdale.

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4 Section 4 Chicago Tribune, Thursday, January 15, 1998 on to a

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game, and she'll be watching.

## NBC's Ebersol calls CBS deal for NFL telecasts a 'reckless decision'

By Michael Hirsley  
TRIBUNE SPORTS MEDIA WRITER

Now that the National Football League TV rights bidding is over, and before the games purchased by those new contracts begin, it's time to play network headgames.

Fox, CBS, ABC and ESPN, who made the winning bids for those contracts, insist they won't lose money on the deals.

But Dick Ebersol, president of NBC Sports, which lost its 33-year grip on a piece of the NFL action, insisted Wednesday the new contract-holders will lose many millions of dollars.

In a swipe at CBS, which outbid NBC for its package of American Football Conference telecasts, Ebersol said the winning \$500 million-a-year bid could have been \$150 million lower and NBC still would have passed up its incum-

bent right to match it.

He called CBS' bid a "reckless decision," and predicted the network would lose \$150 million to \$200 million a year under the deal.

Later Wednesday, Fox-TV board chairman and Chief Executive Officer Chase Carey said his network's experience the last four years—when it paid the then-outrageous, now trend-setting \$400 million a year, emphasized growth and accepted losses that were only half of what Ebersol projects—is cause for optimism at CBS.

And, Carey said, Fox's new \$550 million-a-year deal will be "more favorable" than the old contract. In the future, as networks copy and capitalize on successful entertainment formulas, viewer interest and ratings "will get more and more fragmented," he said. "But you can't create new NFL games."

Of Ebersol's comments, Carey said, "As the guy who's not in, I'm not surprised. Take a grain of salt with what he says."

CBS Sports President Sean McManus and CBS Station Group executive officer Mel Karmazin insisted their bid consummated "a financially responsible deal." They said it will bring growth opportunities in ratings, revenue and viewership demographics.

"We are not going to lose money on this deal," Karmazin predicted bluntly.

He and Ebersol agreed that CBS, with owned-and-operated stations in seven AFC markets, has an advantage over NBC, which had three.

Once the negotiating noise abates, the more private talks in which networks line up their on-air talent will begin.

CBS, which needs to reassemble an NFL lineup for national and regional games and for its projected hour-long pregame show, is the prime headhunter. NBC is the prime resource.

"The analysts will all obviously depart our doors," Ebersol said. In addition, he hinted Greg Gumbel, whose multiple roles include host of the studio pregame show, becomes a free agent this summer "and has good connections with CBS Sports."

Among the analysts, Phil Simms was the only one mentioned specifically as a candidate elsewhere—and that was at Fox, in conjunction with its top analyst, John Madden, reportedly looking toward "Monday Night Football" and being courted by CBS.

Fox Sports President David Hill

said he has had "a couple of conversations" with Simms, hopes to keep Madden and still has Pat Summerall under contract to "remain with Fox Sports."

Of all the networks, NBC seems to be positioned best to ride out life without the NFL. It is sports rich with events from top tennis and golf tournaments to the NBA and an upcoming decade-lock on the Olympics.

Ebersol was quick to dismiss speculation that the network might move up its NBA schedule this fall.

"We would never pit the NBA against NFL football," he said. "That would sabotage the interests of our advertisers."

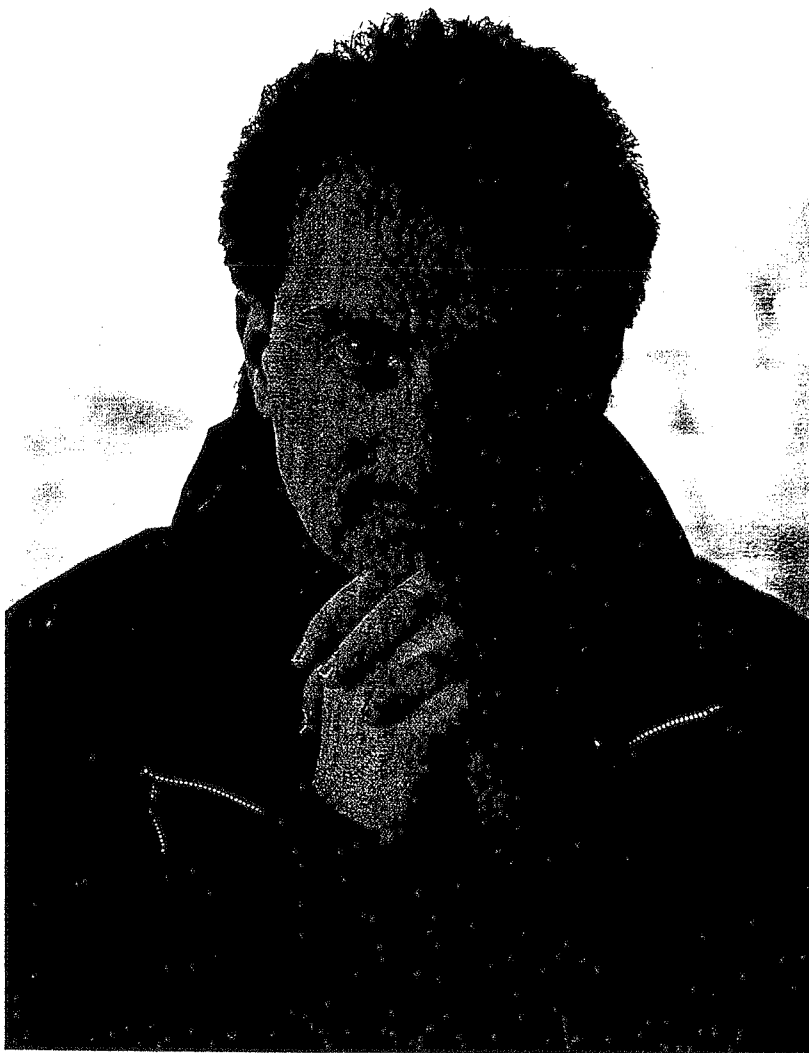
Sundays this fall will be filled instead with movies, he said.

Coming soon to a network near you: "The Longest Yard?"

At the rate he's going, Saudi Prince Alwaleed Bin Talal could one day end up as the richest investor in the world. Here's a look at his holdings, and a glimpse into his mind.

# Riding the coattails of the global boom

By Kerry A. Dolan



Savvy global investor Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud  
He's branching out—targeting Africa, Asia and possibly Latin America.

SAUDI ARABIA has not always used its oil wealth wisely, but you can't make that charge against Saudi Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, 41. He is emerging as one of the world's shrewdest investors.

Count him, too, as a strong optimist. "The bet I'm making right now," he tells *FORBES*, "is that the whole world is opening up, that growth is making the middle classes bigger and bigger in all countries. We have to buy those companies that will benefit from the coattail effects of growth: communications companies, technology, hospitality, entertainment."

A billionaire by 31, Alwaleed pulled his greatest coup in 1991. A lot of people were writing Citicorp off as near-bankrupt, but Alwaleed provided it with badly needed capital in the form of \$590 million worth of new convertible preferred stock. Now 41 million shares, that investment, 9.1% of the Citi's capitalization, is worth \$5.8 billion.

"I haven't sold it because I don't believe the cow has been milked completely," he explains.

While this cow fattens, Alwaleed is out corralling others. A five-person team from Citicorp's private banking arm works for him full time as he combs the world for fresh investment opportunities.

Right now his \$12.7 billion investment portfolio is loaded with shares of Rupert Murdoch's News Corp.; he predicts the stock will double in less than two years and that Murdoch's Asian venture, Star TV, will pay off enormously in the long run.

Alwaleed's lawyers are wrapping up the details on a \$200 million invest-



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Alwaleed with children Khalid and Reem  
**Works hard, but plays hard, too.**

ment in Teledesic, the fledgling satellite network company controlled by Bill Gates and Craig McCaw.

Alwaleed is on the verge of investing in numerous projects in Africa, including hotels in South Africa and Mozambique and banks in Eritrea and Ghana. Asia's troubles don't daunt him. Since the crisis erupted there he's put \$200 million into Daewoo Corp. and Hyundai Motor in South Korea. He is also a big stakeholder in Four Seasons Hotels, TWA, Motorola, Apple Computer and Euro Disney.

Who is this guy? He's a nephew of Saudi Arabia's King Fahd; he was raised in Beirut by his Lebanese mother, and educated at Menlo College in northern California. Alwaleed says he made his first big money in land speculation and the contracting business in Saudi Arabia.

Four years ago, when his Citicorp investment had already started to pay off, he heard that Four Seasons Hotels Chairman Isadore Sharp needed cash and was looking to sell a chunk of the company. Alwaleed invited Sharp to meet him on his yacht at Cannes, France. Alwaleed recalls telling Sharp: "If you're going to treat me like the other [bidders], I'm withdrawing." Sharp agreed to permit Alwaleed to make a preemptive bid. Impressed by their meeting, Alwaleed decided that Four Seasons was for him. "I wrote him a letter; I gave my bid, which was 50% above the market; and within half an hour we were awarded [the stake]."

Lest this spectacular bid give the

Forbes ■ April 20, 1998

## A princely portfolio

Publicly traded company	% stake	Share price		Current value (\$mil)	Purchase date
		at purchase	recent		
Apple Computer	5%	\$18.00	\$26.94	\$170	Mar 1997
Citicorp	9	16.00	141.00	5,800	Feb 1991
Daewoo	18	— *	4.22	150*	Oct 1997
Donna Karan Intl	7	13.00	12.88	20	Sept 1997
Euro Disney	25	1.55	1.60	305	Oct 1994
Four Seasons Hotels	25	14.50	35.80	290	Nov 1994
Hyundai Motor	8	— *	15.98	50*	Mar 1998
Mediaset	5	3.24	6.48	200	July 1995
Motorola	1	61.05	57.50	340	Nov 1997
Netscape	5	32.00	19.50	94	Nov 1997
News Corp	5	18.24†	24.00	520	Nov 1997
NCL	5	2.40	4.59	35	Mar 1997
Planet Hollywood Intl	4	13.22	11.13	48	Apr 1997
Proton	3	2.20	1.81	29	Nov 1997
Saatchi & Saatchi	6	11.88‡	12.25	43	Apr 1997
Saks Holdings	6	20.00	24.00	160	June 1993
Trans World Airlines	5	10.00	12.44	30	Mar 1997

\*Amount invested in convertible bonds. †Preferred shares. ‡Equivalent investment in Cordiant shares.

Private company	% stake	Purchase price (\$mil)	Current value (\$mil)	Purchase date
Canary Wharf	10%	\$80	\$150	Oct 1995
Fairmont Hotels	50	40	120	July 1994
Hotel Georges V (Paris)	100	181	181	Dec 1996
New York Plaza Hotel	42	125	210	July 1995
Palestine Development & Investment	5	10	10	July 1997
Teledesic LLP	14	200	200	Apr 1998
United Saudi Bank	30	150	600	May 1988

Sources: Alwaleed Bin Talal; company reports.

### Just some of the holdings in Alwaleed's \$12.7 billion investment portfolio. A buy-and-hold value investor, the prince pays no heed to short-term losses.

impression that Alwaleed is a gambler, keep in mind that he is fanatical about his homework. That high bid was carefully calculated—as was his seemingly risky investment in Citicorp a decade ago.

When he's on the road, a communications team arrives at each location to set up a private phone network, as well as a satellite link to keep Alwaleed in touch with his office in Riyadh and his far-flung holdings. He spends four hours a day just reading reports and newspapers. In St. Moritz, whether skiing or dining at the Chantarella restaurant overlooking the Alps, he always has a cell phone within reach.

With Teledesic, Alwaleed plans to be more than a passive investor. He

hopes to use his contacts to line up communications providers in the Middle East who will tap into Teledesic's satellites there.

Along with a number of other smart investors, Alwaleed is sniffing around in Africa. His first investment was in Senegal's national telecom operator. In some investments he may team up with the Malaysian government. Alwaleed calls Malaysian Prime Minister Mahathir Bin Mohamad "a good friend" and says Malaysia is "heavily invested in Africa."

Why Africa? "The region is full of incredible natural resources," he says, "full of people who could learn and are willing to learn . . . and who will come at a cheap price." Ever the real-

ist, he adds, regarding Africa: "It's going to be tough. There has to be sweating."

During a December whirlwind world tour, Alwaleed stopped in Moscow and met with the mayor and with powerful industrialist Vladimir Potanin. Except for a Four Seasons Hotel there, however, he decided to give Russia a pass for now. "They still are not able to get out of their communist approach," he complains.

Alwaleed isn't neglecting his home neighborhood, despite the continuing turmoil there. Expecting peace in the Middle East, he's building or planning six Four Seasons Hotels there, including one in Damascus, Syria and another in Amman, Jordan. In February he announced plans to invest up to \$80 million in infrastructure and tourism in the Palestinian-ruled areas of Gaza and the West Bank. In Egypt the government has allocated the prince 430,000 acres in the South Valley, near Aswan, which he plans to reclaim and develop for agricultural use.

Is it too soon to bottom-fish in Asia? Alwaleed has already cast his lines there. During a March visit to South Korea, he pledged \$100 million for Daewoo Corp. convertible bonds and \$50 million for Hyundai Motor convertibles. Earlier he took a 6% equity stake in Daewoo Corp. In November he took a 3% stake, for \$46 million, of Malaysian automobile manufacturer Perusahaan Otomobil Nasional—known as Proton.

Asia appeals to him now because investments there fit an important Alwaleed investment criteria: Rather than be early, he favors going into a promising situation just after it has taken a bad hit—30% to 50%, preferably. He moved into News Corp. at a time when its stock was temporarily depressed, and besides struggling TWA, he owns a slice of Motorola, another somewhat depressed stock. And he invested \$120 million in Apple Computer.

Still fishing in Asia, Alwaleed recently visited the Sultan of Brunei to discuss possible joint investments. And he thinks a lot about China and India. "Two billion people," he says, pausing for dramatic effect. "One-third of the world."



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**BIG TEN DEVELOPMENT**

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**APPENDIX TWO**

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**APPENDIX THREE**

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## Business Technology

# Auction on Web Is buyer's market

## Would-be sellers compete in low bids

ASSOCIATED PRESS

PITTSBURGH—A dozen pairs of eyes are on the computer screen where a new kind of Internet-supported, commercial electronic auction is about to start.

Ding! The computer bell rings. It's the first bid, and already it's 3 percent below the purchaser's maximum price. Ding! Ding! Now it's 11 percent, 26 percent, 39 percent below. Bidding lasts just 83 minutes.

The lowest bid is 51 percent below the price to beat. In the auctions arranged by FreeMarkets Online Inc. of Pittsburgh ([www.freemarkets.com](http://www.freemarkets.com)), the bids don't go up but down.

Applying Yankee ingenuity to electronic commerce, the company is sharpening competition and refining markets. It does so by identifying and investigating suppliers, then pitting them against each other in a computerized auction. Buyers save an average of 15 percent, FreeMarkets said.

Sometimes a supplier can get carried away, as did AXS Solutions Inc., which bid in two FreeMarkets auctions and won one. The Erie nuts-and-bolts maker estimated beforehand how low it could bid and still make money.

"We went below it," said Ron Scott, an AXS team leader. "After a while, it got to be like gambling." Despite it all, Scott said he'd participate again—especially as a buyer.

Bidders' motives for staying in the game are less obvious than buyers', but whether bidders win or lose, they can gain new contacts and a wider knowledge of the market.

Nearly all of FreeMarkets' 40 or so auctions have followed a pattern: Bidders take baby steps before the boldest among them jumps.

"You see people dropping the bid \$10, \$10, \$10, then \$3,000," said Glen Kinney, FreeMarkets co-founder and executive vice president.

**FreeMarkets has conducted auctions for such disparate items as cosmetics ingredients, coal, electrical insulators and kosher food ingredients, and buyers have included Procter & Gamble Co., Westinghouse Electric Corp. and Caterpillar Inc.**

From the purchasers, FreeMarkets takes a flat fee. A winning bidder pays a fee based on the amount of new business.

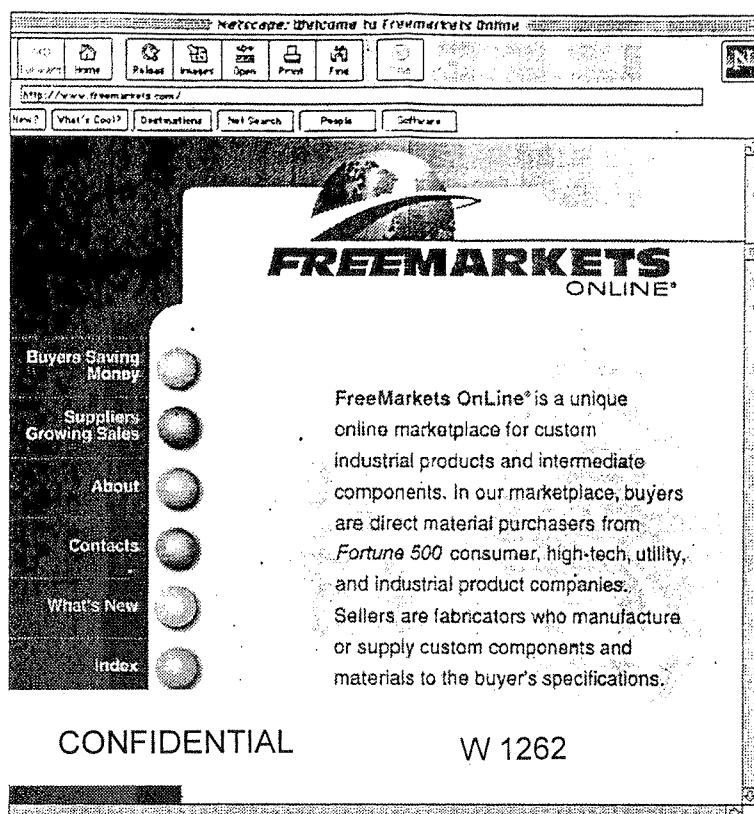
"The really good manufacturers are the ones that win in this process," said Glen Meakem, FreeMarkets chief executive officer and co-founder.

He and Kinney started FreeMarkets Online in early 1995 and assembled more than 100 investors. They could have gone to Silicon Valley but decided that a Pittsburgh address, smacking of smokestacks, would lend them credibility with manufacturers, and they could hire graduates from nearby University of Pittsburgh and high-tech Carnegie Mellon University.

Volume in the first year was zero. In 1996, the company handled \$20 million worth of business and last year \$103 million. Meakem expects volume this year to reach \$300 million.

United Technologies Corp. of Hartford, Conn., is a satisfied FreeMarkets purchaser of thermostat covers and plastic pans for air conditioners. The company makes helicopters, jet engines, elevators, auto parts and air conditioning and heating units.

"Our CEO has made this a big deal with the Wall Street analysts. Anything you save in purchasing



Freemarkets Online Inc. offers auctions for manufacturers and suppliers. Even losing bidders gain market knowledge, say its managers.

goes right to your bottom line," said Kevin Smith, team leader for plastics at UTC.

He pointed out, however, that FreeMarkets' auctions cannot repeatedly push suppliers to cut price.

"It only happens once," Smith said. "They can't do that again and survive." Nevertheless, he said, "I think there's a place for this tool."

FreeMarkets has conducted auctions for such disparate items as cosmetics ingredients, coal, electrical insulators and kosher food ingredients, and buyers have included Procter & Gamble Co., Westinghouse Electric Corp. and Caterpillar Inc.

Some products don't suit the auction, though. If only a few suppliers make a product, or the purchaser wants only a small amount, the market isn't large enough.

Sitting in on an auction helps to understand the process.

The purchasers and suppliers are snug in their offices in other cities as a dozen of FreeMarkets' "market makers"—analytical salespeople—gather in their con-

ference room in downtown Pittsburgh to watch the screen.

With each ring of a computer bell, up pops a new line of information stating the bidder's name, amount, time of the bid and how it compares to the price that the purchaser wants to beat.

In one auction, an automaker wanted to buy hexagon-headed screws. Such custom components are FreeMarkets' strength.

FreeMarkets identified as many suppliers as possible, invited them to apply and investigated their credibility, sometimes even visiting their factories.

Buyer and sellers set a date to meet at a secure Internet site. At the appointed time, both sides logged on with FreeMarkets' software, and the bidding began. The software immediately calculated each bid's relative position to the purchaser's maximum price.

The buyer doesn't necessarily go for the lowest price. The low bid may come from a supplier in Malaysia and a higher but competitive bid may come from a supplier up the road. "The incidentals get very, very important," Kinney said.

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BIG TEN DEVELOPMENT

APPENDIX FOUR

## ROBERT W. WELSH

The Welsh Center Office Development  
1250 Grove Avenue, Suite 200  
Barrington, IL 60010

847-382-1422 (Home)  
847-381-5171 (Office)

### OBJECTIVE

Since father's death thirteen years ago, have completed family business responsibilities. Ready to grow in a less politicized environment using spectrum of contacts, business experience, and strategic resources.

### EXPERIENCE

Redevelopment and management reorganization of all Welsh family businesses following the sudden death of Leslie T. Welsh in April 1984. Businesses included Leslie T. Welsh, Inc., a holding and management company with office buildings; Lear 25 corporate jet; Bell Jet Ranger helicopter; 900 acre central Illinois Agricultural/Recreational property; Boyt-Division Welsh Sporting Goods, a manufacturer of luggage and sporting goods; Shallowbrook Farm crops, thoroughbred horse breeding; marketing and racing; Polled Hereford cattle breeding and marketing.

Welsh Center Office Development  
President

1984-Present

Brought occupancy from 15% to consistent profitable 85-95% since 1988. Maintain quality day to day management. Future involvement will be once a month or quarterly.

Shallowbrook Farm  
President

1984-Present

#### Achievements:

- \* Sold all thoroughbred horses
- \* Sold all Polled Hereford cattle
- \* Upgraded farming operations
- \* Converted main residence to executive conference center
- \* Reversed annual cash flow from (\$500,000) to +\$40,000

CONFIDENTIAL

W 1264

Robert W. Welsh  
Page Two

Leslie T. Welsh, Inc.  
President

1984-Present

Accomplishments:

- \* Sold central Illinois property to State of Illinois Department of Conversation
- \* Sold Lear 25 jet
- \* Sold Bell Jet Ranger II helicopter
- \* Expanded leased space within Welsh Center from 3,000 to 8,000 square feet; 19 office "executive suite" businesses. Currently 18 of 19 offices are leased.
- \* Reversed annual cash flow from (\$300,000) to +\$80,000

Boyt Division Welsh Sporting Goods  
Chairman

1984-1992

Dramatic sales growth but declining earnings as a percent of sales with increased bank debt; communication breakdown on how to correct these issues with president of ten years. Stockholders (brother and two sisters) voted against my restructuring plan in favor of "outside professional management". Consequently, relinquished all management responsibility of Boyt-Division in August 1992. Grew business in fifteen years from \$600,000 to \$17 million in sales.

*In 1991, hired Arthur Anderson to solve all remaining family financial issues (trusts, tax opportunities, partnerships, debt, assets, liabilities) with the goal to eliminate all remaining unsupported bank debt within the family. Resulted in decision to sell twenty acre Barrington Hills residential properties. Took over the project in January 1994, after two years of unsuccessful attempts to sell by two prominent residential brokerage companies. Closed on sale on entire property July 21, 1994; which eliminated all the remaining unsupported bank debt within the family.*

1977-1984

Worked closely with father, Leslie T. Welsh, in the development and management of diverse new and existing family businesses and assets including:

- \* **Boyt-Division Welsh Sporting Goods** - domestic manufacturer of soft sided luggage and hunting accessories. Hired new President in 1979. Personally held the following positions - Vice President, President and Chairman.

CONFIDENTIAL

W 1265

Robert W. Welsh  
Page Three

- \* Robert W. Welsh Personal Investments - developed and currently manage numerous personal investments including: Nebraska ranch, residential properties, farms.

**PROCTER & GAMBLE**

1976-1977

Institutional Sales Representative

Sold institutional cleaning products - south side of Chicago. Increased sales by 50% in 15 months.

**INVERNESS LAND AND CATTLE MANAGEMENT COMPANY**

Ranch Hand; 26,000 acre ranch each of Livingston, Montana

August-December 1975

**CHICAGO STING SOCCER CLUB**

June-August 1975

Assistant to Director of Promotions

Organized and coordinated appearances, promotional events, media relationships, post and pregame activities.

**EDUCATION**

B.S., College of Business Administration, The Pennsylvania State University

**ASSOCIATIONS**

- \* Association of Manufacturing Excellence (AME); member since 1992
- \* Chicago West Chapter of the Young Presidents Organization (YPO); member since 1989
- \* Penn State University Libraries Development Advisory Board, member since 1988
- \* Since 1989, director Grayson-Jockey Club Research Foundation. Initiated merger of The Jockey Club Foundation and The Grayson Foundation. Currently \$10 million endowment funding \$500,000 annually in research grants to find cures and causes for horse injuries and diseases.
- \* Chicago Club
- \* Barrington Hills Country Club
- \* Mount Nittany Society

**PERSONAL**

Enjoy golf, fishing, adventure travel, sled dog racing, wilderness canoeing, physical fitness as well as collecting vintage Winchester rifles, art, and first edition books of Robert Service Poetry.



APPENDIX

3

# THE PARADIES SHOPS

## Locations Address List

### PGA TOUR SHOPS

UNIT #	# OF SHOPS	SHIPPING ADDRESS	TELEPHONE	MANAGER
030	1	The Paradies Shops, Inc. Attn: PGA TOUR Shop Columbia Metropolitan Airport 3000 Aviation Way West Columbia, SC 29170	(803)822-8265	Terry Hardee
101	1	PGA Tour Shop-Ft. Myers Southwest Florida International Airport 16000 Chamberlain Parkway Suite 8673 Ft. Myers, FL 33913  <u>*OPENING FALL 1997*</u>	(941)768-5371	Brian Brewer
130	1	Paradies-Savannah Attn: PGA TOUR Shop Savannah International Airport 466 Airways Avenue Main Terminal Building Savannah, GA 31408	(912)966-5392	Allison Brown
425	1	Paradies-Toronto Attn: PGA TOUR Shop Lester B. Pearson International Airport Trillium Terminal 3 6300 Silverdart Drive Toronto, Ontario, Canada L5P1B2	(905)612-8351	Karen Chilvers
901	1	PGA TOUR Shop-Perimeter Mall c/o The Paradies Shops 5950 Fulton Industrial Blvd., S.W. Atlanta, GA 30336  <u>MAILING ADDRESS:</u> PGA TOUR Shop 4400 Ashford Dunwoody Road Suite 2426 Atlanta, GA 30346	(770)913-0402	Michael Hirsch
911	1	PGA TOUR Shop-Nashville Nashville International Airport One Terminal Drive Suite 315 Nashville, TN 37214	(615)275-4287	Shelly Brashear  General Manager: Lisa Wall
912	1	PGA TOUR Shop-West Palm 1000 Palm Beach International Airport Suite 131 West Palm Beach, FL 33406	(561)233-7806 (561)233-7815	Robert Hindle  General Manager: David Quinn

CONFIDENTIAL

W 1267

# THE PARADIES SHOPS

## Locations Address List

920	1	PGA TOUR Shop-Sarasota Sarasota/Bradenton International Airport 6000 Airport Circle Sarasota, FL 34243	(941)359-5371	Toulouse Deveny
921	1	PGA TOUR Shop-Las Vegas McCarran International Airport 5757 Wayne Newton Boulevard Las Vegas, NV 89119  <u>MAILING ADDRESS:</u> PGATour Shop-Las Vegas McCarran International Airport P.O. Box 11298 Las Vegas, NV 89111-1298	(702)261-3287	Beth Gutierrez
925	1	PGA TOUR Shop-Reno Reno/Tahoe International Airport 2001 East Plumb Lane Reno, NV 89502	(702)329-2073 (702)329-7143	Kathy Dunn  General Manager: Debbie Archakis
938	2	PGA TOUR Shop-Tucson Tucson International Airport 7250 South Tucson Blvd. Tucson, AZ 85706	(520)573-4755	Anna Bustamante  General Manager: Alison Stacey
941	1	PGA TOUR Shop-Burbank Burbank/Glendale/Pasadena Airport 2627 Hollywood Way Burbank, CA 91505	(818)563-5574	Peter Marziano
943	2	PGA TOUR Shop-Dallas Dallas/Ft. Worth International Airport Northbound Service Road Dallas/Ft. Worth, TX 75261	#1 972 (214)574-4478 #2 972 (214)574-6277 VOICE MAIL: 972 (214)574-7239	Andy Ferrell  General Manager: Lloyd Clemons
945	1	PGA TOUR Shop-Pittsburgh Pittsburgh International Airport c/o Genco Distribution Central Service Building Pittsburgh, PA 15231  <u>MAILING ADDRESS:</u> PGA TOUR Shop-Pittsburgh Pittsburgh International Airport P. O. Box 12296 Pittsburgh, PA 15231	(412)472-3082	Karen DeMaria
948	1	PGA TOUR Shop-Tyson's Corner 7978-L Tyson's Corner Center (Mall) McLean, VA 22102	(703)917-0091 (703)917-0037	Joe Chiafulio

CONFIDENTIAL

W 1268

Revised: 08/18/97

# THE PARADIES SHOPS

## Locations Address List

950	1	Paradies-Vancouver Attn: PGA TOUR Shop Vancouver International Airport 3880 Grant McConachie Way Unit C-1929 Richmond, BC V7B1Y7	(604)303-3081	George Thibodeau  General Manager: George Crichton
953	1	PGA TOUR Shop-Indianapolis Indianapolis International Airport 2500 South High School Road Indianapolis, IN 46251	(317)241-9026	Lisa Paczkowski
955	1	PGA TOUR Shop-St. Louis 9845 St. Charles Rock Road, Unit #103 Breckenridge Hills, MO 63074  <u>MAILING ADDRESS:</u> PGA TOUR Shop-St. Louis Lambert-St. Louis International Airport P. O. Box 10218, Room #2548 St. Louis, MO 63145	(314)427-8519 (314)427-7836	Susan Barber  General Manager: Dick Tuhro
956	1	Paradies-Jacksonville Attn: PGA TOUR Shop Jacksonville International Airport Jacksonville, FL 32229	(904)741-0452 <i>PGA - 904 741-8500</i>	Chris Forner  General Manager: Helen Godfrey
958	1	PGA TOUR Shop-Washington Union Station (Train Station) 50 Massachusetts Avenue, N.W. Washington, DC 20002	(202)371-6975 (202)371-6963	Leonard Amthor
970	3	Paradies-Phoenix, LLC Attn: PGA TOUR Shop 3400 Sky Harbor Boulevard Terminal 3 Phoenix, AZ 85034  <u>* OPENING FALL 1997 *</u>		Richard Ebben
975	1	PGA TOUR Shop-Metro Ventures Detroit Metropolitan Airport L. C. Smith Terminal Building Detroit, MI 48242	(313)942-4181 (313)942-4581	Mark Callahan  General Manager: Mike Ripinski
978	1	Memphis-TPS, Inc. Attn: PGA TOUR Shop Memphis/Shelby International Airport 2491 Winchester Road Memphis, TN 38130  <u>* OPENING FALL 1997 *</u>		Donald Sykes

CONFIDENTIAL

W 1269

**THE PARADIES SHOPS**  
Locations Address List

991	1	PGA TOUR Shop-Washington National Washington National Airport Air Cargo Road, Building #105 Washington, DC 20001	(703)417-1915	Bobby Salehi

Create a public development district to sell tax-free bonds backed by the city's parking-meter revenues. Structure it so the public 'owns' the garage but the developer extracts the economic value from it."

Nordstrom is just first among

many beneficiaries. In Pittsburgh, Cincinnati and Sacramento, to name a few, other stores are crowding to the trough. At least one California town used Section 108 funds for a big car dealership.

The result of this activity, in a

country often said to be "overstored," is more retail space created than the marketplace on its own would support. Two of the latest development proposals have been floated by Buffalo and Duluth. Dress warm for Christmas shopping. ■

## LEISURE

Cashing in his radio stations, SFX's Bob Sillerman wants to be the leading impresario of live entertainment.

# Bob Sillerman presents...

By Eric Nee

IF IT'S LIVE ENTERTAINMENT, Robert Sillerman wants a piece of it: Broadway musicals, heavy metal rock, demolition derbies, figure skating. Last month alone Sillerman's new company, SFX Entertainment, Inc., acquired four regional live entertainment powerhouses for \$421 million: Bill Graham Presents of San Francisco; Sunshine Promotions of Fishers, Ind.; Contemporary Group of St.

Louis, Mo.; and Concert/Southern Promotions of Atlanta, Ga. SFX now controls more live entertainment locations than any other company in the U.S.

Among the acts, shows and artists who have been under the SFX banner are Fleetwood Mac, Jerry Seinfeld and the Rolling Stones.



Robert Sillerman  
**A buying binge.**

SFX leases, owns or manages 39 major locations for live entertainment in 21 of the 50 top U.S. cities. Among them are the 65,000-seat Glen Helen Blockbuster Pavilion amphitheater in San Bernardino, Calif.; the 17,500-seat PNC Bank Arts Center amphitheater in Holmdel, N.J.; and the 20,100-seat Starplex Amphitheater in Dallas.

Now 50, Sillerman has been starting, buying and selling companies for 30 years. While still in college, the New York City native created Youth Market Consultants, Inc., which became the foundation for his current empire.

He greatly expanded its

## That's entertainment



Business	Event	Market position
Producing motor sports events	tractor pull demolition derbies monster trucks motocross races	The largest of 3 nationwide companies producing motor sports entertainment. SFX held 170 events in 74 cities in 1996.
Investing in and producing Broadway show tours	West Side Story Rent Chicago The Sound of Music	One of 6 nationwide companies, presenting 290 weeks of theater in 26 cities in 1996.
Booking, promoting and producing national tours	Fleetwood Mac Phish The Rolling Stones Smashing Pumpkins	One of the largest music promoters in the U.S. Produced national tours of comedians Jerry Seinfeld and Tim Allen.
Producing events and tours for corporations	AT&T CBS RadioShack Coca-Cola	One of the largest producers of mall tours. More than 100 SFX semis, trucks and vans outfitted with corporate logos and marketing doodads travel the country every day.
Owning and operating live entertainment venues	Jones Beach Amphitheater, N.Y. Shoreline Amphitheater, Calif. Starplex Amphitheater, Tex. Deer Creek Music Center, Ind.	The nation's largest, with 39 venues in 21 of the 50 largest cities. Its 4 Atlanta theaters drew 486,000 people to 294 shows in 1996.
Market research and publishing on the entertainment business	"The Yellow Pages of Rock" "Album Network" "Totally Adult" "Urban Network"	One of the largest providers of information on radio airplay and retail music sales, with revenues from magazines and research totaling \$25 million in 1996.



scope in 1992, with the creation of SFX Broadcasting, Inc., which built a national network of radio stations, buying them when no one wanted radio stations. With radio stations no longer cheap, Sillerman decided to bail out. Last August SFX Broadcasting reached an agreement to sell its 71 radio stations to the Dallas buyout firm Hicks, Muse, Tate & Furst for \$1.2 billion in cash and the assumption of SFX's \$920 million in debt.

Which leaves Sillerman free to concentrate on live entertainment. Out of local and regional radio, Sillerman went for local and regional live entertainment companies. In a complex financial transaction, shares in SFX Entertainment will be spun off within the next month to existing SFX Broadcasting shareholders, along with \$75 in cash as payment. SFX Entertainment stock is being traded on a when-issued basis on Nasdaq for \$24.

Sillerman plans to use the stock to buy out more of the local entrepreneurs who presently control these events. By centralizing accounting, booking and marketing efforts, and striking more lucrative deals with national touring acts, Sillerman expects to make live entertainment more profitable. Needless to say, he hopes to nudge up ticket prices. He also plans to book national tours into SFX-controlled locations and to wheedle more corporate sponsorships for its venues and tours. "It hasn't been presented to Madison Avenue as aggressively as it could be," says Sillerman.

What might trip up Sillerman? First SFX must make sure it hangs on to the talent it acquired when it bought the regional firms. Many of these companies were created by strong-willed entrepreneurs who may prove less than willing to yield control.

SFX may also find that the hoped-for efficiencies of a national company prove elusive. The dream of getting corporations to pay big money to attach their names to all of SFX's local arenas may prove difficult. So, at some point, might the U.S. Department of Justice.

But if Sillerman can pull this off he will have realized a dream that has foiled many an impresario of the past.

## MEDIA

Not satisfied with launching a new magazine, Wired's management boasted about creating "a new kind of media company." The company has tripped over its own ambitions.

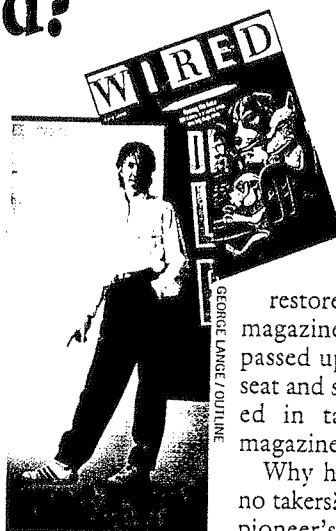
# Un-Wired?

By Julie Pitta

FIVE YEARS after bursting on the scene with neon graphics and an avalanche of attitude, *Wired*, the self-consciously hip magazine for the cyberset, is struggling. Its problems first surfaced in 1996 when Wired Ventures Inc., the magazine's parent company, delayed an initial public offering after investors balked at the nearly \$300 million valuation its principals had wanted. In the end the offering was simply canceled.

A subsequent \$21.5 million investment from Wall Street financier Paul Tudor Jones kept the magazine, and drastically scaled-down versions of its book publishing arm and on-line *Wired* Digital, afloat, but the cash kept draining out faster than it came in. Management had to pull the plug on its TV program and British edition of *Wired*, as well as ambitious plans for design and "new economy" magazines. Late last year *Wired* hired investment banker Lazard Frères & Co. to look for a buyer.

So far Lazard has found no takers. A proposed merger with Excite Inc., the publicly traded operator of a popular directory of Internet sites, fell apart in December. After the failed Excite merger, Lazard made the rounds of East Coast publishers: *Wired* was looking to be bailed out by the very "old media dinosaurs" the sassy magazine often ridiculed. Among the dinosaurs only the New-houses' Advance Publications, owners of Condé Nast, came through with some cash. Previous investors came up with less than half the \$21.5 million *Wired* raised 18



Wired's Louis Rossetto  
An empire lost.

months earlier. Moreover, Advance Publications, reportedly struggling to restore the *New Yorker* magazine to profitability, passed up a *Wired* board seat and seems uninterested in taking over the magazine.

Why has *Wired* found no takers? Perhaps it is the pioneer's fate to be overtaken by the established players it has awakened. "*Wired* made the nerd hip," says one media executive.

"But now that everyone's online, what's its cachet?" Another Internet pioneer, Netscape Communications Inc., knows the feeling: Bigger guys moved into the territory it opened up, leaving Netscape struggling to survive against better-heeled competitors.

*Wired* faces competition from computer trade books as well as from the mass media. *Wired* insiders talk about the transition the company faces from being a "revolutionary" to being an "authority." In a bid to broaden its circulation beyond the current 400,000, it appears to have toned down the peculiar cyberlibertarian rhetoric of its cofounder Louis Rossetto. Something of a visionary and very much the publication's moving spirit, Rossetto has been pushed out of day-to-day operations by the board.

In the prospectus for the company's failed IPO, *Wired* boasted it was building "a new kind of global, diversified media company for the 21st century." Perhaps it would have done better with more modest goals and less lofty ambitions.